

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 2692 – SB 2706**

March 20, 2018

**SUMMARY OF ORIGINAL BILL:** Authorizes The Caverns in Grundy County to sell alcoholic beverages for on-premises consumption.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Revenue - \$300/One-Time/ABC Fund  
\$2,000/Recurring/ABC Fund  
\$8,500/Recurring/General Fund

Increase Local Revenue - \$6,100/Recurring/Permissive

**SUMMARY OF AMENDMENT (014668):** Deletes and rewrites all language after the enacting clause such that the only substantive change is additional language authorizing a commercially-operated facility in the City of Tullahoma to sell alcoholic beverages for on-premises consumption.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

Increase State Revenue - \$600/One-Time/ABC Fund  
\$4,000/Recurring/ABC Fund  
\$17,100/Recurring/General Fund

Increase Local Revenue - \$12,700/Recurring/Permissive

Assumptions for the bill as amended:

*The Caverns in Grundy County*

- This legislation applies to The Caverns in Grundy County.
- There is an initial application fee of \$300 and a \$2,000 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$100 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.

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- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the local option sales tax rate in Grundy County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY18-19.
- Based on the interquartile average of 2017 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$120,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the size of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$60,000 ( $\$120,000 \times 50\%$ ) per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$8,548 [ $(\$60,000 \times 7.0\%) - (\$60,000 \times 7.0\% \times 3.617\%) + (\$60,000 \times 15.0\% \times 50.0\%)$ ].
- The recurring increase in local revenue is estimated to be \$6,102 [ $\$100 + (\$60,000 \times 2.25\%) + (\$60,000 \times 7.0\% \times 3.617\%) + (\$60,000 \times 15.0\% \times 50.0\%)$ ].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

*One Commercially Operated Facility in the City of Tullahoma*

- This legislation also applies to one commercially-operated facility in the City of Tullahoma.
- There is an initial application fee of \$300 and a \$2,000 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$100 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the local option sales tax rate in the City of Tullahoma is 2.75 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY18-19.

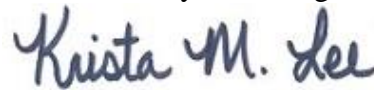
- Based on the interquartile average of 2017 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$120,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the size of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$60,000 ( $\$120,000 \times 50\%$ ) per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$8,548 [ $(\$60,000 \times 7.0\%) - (\$60,000 \times 7.0\% \times 3.617\%) + (\$60,000 \times 15.0\% \times 50.0\%)$ ].
- The recurring increase in local revenue is estimated to be \$6,602 [ $\$300 + (\$60,000 \times 2.75\%) + (\$60,000 \times 7.0\% \times 3.617\%) + (\$60,000 \times 15.0\% \times 50.0\%)$ ].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

*Total Impact on State Revenue, Local Revenue, and Fee Revenue to the ABC*

- The total recurring increase in state revenue to the General Fund is estimated to be \$17,096 ( $\$8,548 + \$8,548$ ).
- The total recurring increase in local revenue is estimated to be \$12,704 ( $\$6,102 + \$6,602$ ).
- A recurring increase in state revenue to the ABC of \$4,000 ( $\$2,000 + \$2,000$ ) and a one-time increase in state revenue to the ABC of \$600 ( $\$300 + \$300$ ).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/jdb